

PAINLESS OUTSOURCING

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Outsourcing logistics services can be a traumatic experience with disappointing results: it doesn't have to be like this. Peter Roan explains how it is possible to outsource logistics services successfully and with minimum pain, by thorough preparation and the adoption of a systematic selection process.

Deciding What You Want

Having made a decision to outsource, rather than run operations in-house, a critical review of logistics requirements must be carried out before embarking on a selection process. All too often companies struggle to complete outsourcing programmes because they are not sufficiently clear about what they want from a partner and what services they want them to perform.

The key questions you must ask yourselves before embarking on partner selection include:

- How does the performance of logistics services contribute to the success of my business?
- What is the scope of the services to be outsourced?
- What changes do I expect within my business and how will this impact on logistics requirements?
- What sort of a relationship do I want with a logistics partner?
- What criteria will I use to select a partner?
- What is the strategy for transition from my current arrangements?
- What are likely to be the contentious areas within a logistics contract?

Addressing these questions will allow you to draw up a specification document that reflects your logistics requirements and increases the likelihood of a smooth contract negotiation and successful implementation.

Performance of logistics services will impact on the success of any business with a supply chain. But what are the key drivers behind that performance? They may include lead-time, inventory control, logistics costs, service enhancement, innovation and health and safety. A good appreciation of the competitive position of your company within the market place will help you to understand the relative importance of these factors.

Identifying the services that you want to outsource, both now and in the future, will allow you to select a partner with the capability to fulfil your ongoing requirements. Similarly, an understanding of how your business is growing and is likely to develop will help to define the flexibility that logistics services will need to provide.

The type of relationship that you want with a provider will depend on many factors, including the culture and management structure within your organisation. Relationships between customers and logistics partners range from hands-off, tariff-based arrangements to close strategic partnerships that encourage mutual growth. Deciding what sort of a relationship you want and how you want this to evolve will help to define the characteristics of the partner and the corresponding structure for your own organisation. Importantly, you need to decide what commercial arrangements and contract type (e.g. open book, tariff-based etc.) you are seeking at an early stage.

Establishing selection criteria before starting the selection process allows potential partners to provide evidence that they can meet your requirements. This also helps to ensure that the final selection is fair and objective. Defining an exit strategy from the current arrangements gives potential suppliers the confidence that the process will result in change, as well as reducing transition risk.

Finally, identifying potentially problematic areas at an early stage will allow you to develop a dialogue with potential partners to achieve resolution before detailed contract negotiation starts.



Total Logistics managed the 3PL selection process for bid-up TV and Internet home shopping providers

Getting The Selection Process Right

A professional and well-managed tender process provides a sound base for developing a logistics contract and increases the likelihood of a successful transition. Competitive tendering generally reduces cost and encourages a commitment to delivering the required service levels at an early stage.

Before tendering, applying a pre-qualification assessment allows a range of potential suppliers to be considered. At this stage, your enquiries should focus on their capability to perform the services requested and willingness to engage in the tender process. This is an opportunity for you to convince potential suppliers that this is a business that they want to win, that can be won and where they can make a difference.

Responding to tenders requires significant effort from suppliers so you should draw up a limited shortlist of companies that you realistically expect to be capable of performing the business. The list should not be too short as one or two suppliers may drop out during the process: generally a group of four to six suppliers is about right at the start of the process, provided that you have checked with them that they intend to respond.

A clear and well-structured tender document is more likely to engage suppliers and encourage coherent responses. Stating the selection criteria ensures that potential partners understand the business priorities and are able to demonstrate their capability to meet them. Proformas can be used to allow responses to be compared, although very rigid formats should be avoided, as they tend to stifle creativity and innovation.

Appointing a Project Manager to control the tender process provides a single point of contact to tenderers and ensures that responsibilities are clear: it is important that you have sufficient resources to manage the tender and provide the necessary information.

Importantly, you should always put a confidentiality agreement in place if you are issuing sensitive data or business plans.

The tender process and timetable should be clearly identified, to allow potential partners to plan their internal resources. A reasonable amount of time should be allowed for tenderers to respond: this will vary according to the complexity of the task, although 4 weeks is generally sufficient, particularly if this timescale has been indicated at pre-qualification. Allow time within your plan to analyse suppliers' responses before your deadline for internal reporting. In addition, you should decide your general policy towards requests for time extensions before the tender document is issued.

Maintaining contact with tenderers throughout the process increases the likelihood of receiving good quality responses on time. Clarifications to the tender document should generally be issued to all tenderers simultaneously: an exception to this could be if a clarification relates to a particularly innovative solution that has been suggested by a potential supplier.

Scoring systems are often used for final selection. It's important to decide what you're going to do with the results before you start: will you award the business based on the scoring, or is this just an input to the decision making?

Your selection should be based on the respondents' ability to demonstrate that they meet the selection criteria, ideally those defined at the start of the process. It might sometimes be necessary to refine the criteria during the process, as you develop a better understanding of the requirements of a partner.

Comprehensive feedback should be provided to unsuccessful candidates. This acknowledges the effort that has been put into the process and helps tenderers to make more appropriate submissions in the future.

Defining the Contract

Once you've selected your preferred partner you must negotiate contract conditions. It's worth putting the time into drafting your own document rather than relying on standard agreements, particularly if the operations are complex.

The tender process thus far is structured to ensure that the logistics activities and responsibilities are clear and that controversial aspects have been agreed (or at least, both parties have clearly stated their position!). This should save time during the negotiation process and reduce the potential for conflict and misunderstanding later on.

Agreements and requirements should be drafted clearly before involving legal teams. Operational and technical schedules should be attached as appendices to the main legal document, allowing them to be amended more easily as the contract progresses. The requirements for the implementation stage should be covered within the contract, as well as the ongoing operation, and resources to be provided by each party should be specified, where appropriate.

Key Performance Indicators that reflect the business priorities should be clearly defined with target levels and where appropriate, with breach levels. Mechanisms to encourage continuous improvement, such as sharing of cost savings, should be included where practical. Consideration must be given to how the contract can be changed as business requirements develop throughout the life of the contract, for example by the adoption of a change control mechanism.

Managing Implementation

A smooth implementation is the acid test of your preparation. A project implementation team should be established as early as possible, with each member having clear roles and responsibilities. A Project Manager should be appointed to monitor progress and take remedial action where necessary. The first task for the team will be to review and enhance the implementation plan, focusing on deliverables and milestones.

Risk Management is key: run a workshop with your selected supplier to identify the risks that are most likely to occur and/or will have significant impact. Suitable mitigating actions should be agreed to reduce the risk. If these are insufficient, then contingency plans should be put in place and risk owners should be assigned to any significant areas of exposure to ensure that the agreed actions are put in place.

Think about the needs of your own team at this point: they may require training in Change Management, especially if they have not been involved in implementations in the past. Operational tuning will be required after the initial start-up period, to ensure that service delivery performance and levels of efficiency are on track.

Improving Performance

The steps taken so far will make the ongoing management of the contract easier, as the responsibilities and commitments of both parties should be clear. You should, however, monitor performance closely and continue to explore opportunities to gain efficiencies and improve service to the benefit of all parties.

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